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SUBJECT: KARZAI DISCUSSES ASSISTANCE BUDGET WITH
ADMINISTRATOR NATSIOS

Summary

1. (SBU) President Karzai and AID Administrator Natsios on November 17 ran through a tour d'horizon of the progress of U.S. assistance programs, Afghan needs, U.S. budget realities, and plans for counter-narcotics work in the coming year. While Karzai continues to believe a twenty percent reduction in the area under poppy cultivation is attainable, and is committed to achieving this, both Karzai and Finance Minister Ahadi expressed concern for the economic and political fallout that could occur if counter-narcotics (CN) performance impacted on economic prospects for rural populations without adequate alternative livelihood income substitutes. End Summary,

2. (SBU) On November 17, AID Administrator Natsios, accompanied by Ambassador, met with President Karzai and key ministers, including finance Minister Ahadi and Economic Minister Farhang, to discuss assistance and Afghanistan's current top development priorities. Natsios briefed President Karzai on AID activities that he had visited the day before in the Panjshir Valley. He noted that the blacktop (Note: the asphaltic concrete road from Charikar and Gulbahar and the double bituminous surface treatment road from Gulbahar to Baharak) in the Panjshir would be finished by the end of 2006. The new courthouse would be completed in three weeks, as well as four schools and four health clinics.

Roads

3. (SBU) Karzai then asked about progress on the national plan for roads, health clinics and schools. The Administrator responded that 389 schools had been completed, and 378 health clinics with trained personnel, and stocked with pharmaceuticals were now operational. Responding to Karzai's question about the status of the Kandahar-Heart road, Natsios said that the U.S. and Saudi portions of the road would be completed by July and December of next year, respectively, but that the Japanese portion of the project is still lagging. Of the originally targeted 1,000 kilometers of Provincial/District Center roads, USAID has funded work on 850 kilometers. (Note: About 360 kilometers are already completed). Karzai mentioned that he had heard that the Jalalabad-Asmar road was having problems with contracts, which Natsios promised to look into. (Note: Two contractors were replaced with a single new contractor and the road is scheduled for completion on/about December 30, 2006). When the Afghan leader asked about the Gardez-Khost road, Ambassador answered that we did not currently have the money to support the project, even though it was an important road.

Power

4. (SBU) Administrator Natsios noted that the Ambassador had been in the U.S. lobbying hard for additional supplemental funds, which would be targeted on roads, power, and other key infrastructure projects. Natsios cautioned, however, that recovery from Katrina made the budget climate difficult and the attitude of the American public toward foreign aid was not as supportive as Europe's. He noted that the FY 07 budget looked pretty good, but said that it was almost inevitable that there would be some decline from present levels. Natsios added that power generation was also one of the three major areas that need more funds. He pointed out that when the U.S. had started on the Kajacki Dam (the major source of power for Helmand and Kandahar), we had expected other international donors would help with transmission; but they did not. The additional costs could come the USD 100 million. The German and French aid ministers say they can't help now. The EU speaks loudly in councils, but has been light on donations and disbursements. Projects for power generation, transmission, and distribution are very expensive, and all must be completed in order for the

systems to function economically. USAID is already funding the gas power generation plant in Sherbegan near the Uzbek border to the tune of USD 100 million, and the World Bank in Kabul alone was spending USD 23 million on distribution networks. The IFIs were helping, but there was not enough funding to do everything that was desirable.

Counter-narcotics

15. (SBU) The Ambassador noted that success in CN performance would be a factor in U.S. budget support. Good progress on Afghanistan's part will improve the chances of increasing U.S. assistance. The alternative livelihoods development program will work in conjunction with interdiction and eradication, but will not work otherwise. Both Karzai and Finance Minister Ahadi emphasized that there was no doubt about the GOA's commitment and determination to succeed in CN activities, but expressed the concern that if the solution were not comprehensive enough, it could lead to poverty and instability. Karzai noted that narcotics might contribute as much as USD 3 billion to the economy, and if eliminated, the economy will suffer. Karzai opined that cartels had not yet formed in Afghanistan, but that Turkish, Iranian, and Central Asian mafias are involved, as well as intelligence officers from former Soviet Union countries. The Afghan President also felt that some of the recent attacks in the Kandahar area had been narcotics-related.

Natsios noted that there was no way that any alternative, livelihood development would replace the total lost revenues, except in the long run if the economy takes off. Natsios added that the U.S. was aware that eliminating poppy cultivation cannot be done in one year, and that it will take time. If another twenty percent reduction in the area of cultivation occurs next year on top of the twenty percent reduction achieved last year, this will be seen as a success.

Comment

15. (SBU) President Karzai appeared concerned that if the economy is not productive enough in the rural areas after CN campaigns, instability will increase. He stressed his determination to succeed at the CN agenda, but at the same time he does not want Afghanistan to be held to unrealistic standards in the counter-narcotics struggle. If CN activities lead to a snapback in support for the government, then our CN goals and our governance goals in Afghanistan will have moved into conflict with each other.

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